FINANCIAL NEWS

Hotels drag down industry's 3rd qtr. results

Staggering Sambo's losses also spur 23% profit decline

By Rurick Telberg

Led by a long-suffering hotel industry and the spectacular losses at the Sambo's coffee shop chain, *Nation's Restaurant News'* survey of third-quarter financial results showed a dismal 23% year-to-year earnings decline for 43 food-service and lodging companies.

The sampling of quarterly financial reports for the periods ending in July, August or September showed that sales in the hospitality industries increased 13% from the same year-ago period for the same companies. But net profits fell 23% below 1981 levels.

Net profit margins for the food-service and lodging industries, by the same measure, narrowed 33%, leaving about 5¢ profit for every dollar of sales.

The 34 food-service companies surveyed posted a 7% profit fall off while sales rose 12%. Margins for restaurant operators and caterers were cut by 17%.

Four out of nine lodging firms reported declines or losses on their bottom lines, leading to a 50% reduction in net profits while sales climbed 18%. Margins for the hoteliers were cut more than half, down from 14% of sales last year to 6% this year.

The fast-food segment of the restaurant business held up the best, scoring an 11% sales gain and a 13% profit increase. The only segment to post wider margins, fast feeders increased their return on sales 2%.

In the diversified companies, coffee shop, dinnerhouse, and cafeteria chains, profit growth generally lagged behind sales growth.

Weighed down by the staggering $43.2 million loss at Sambo's, the coffee shop segment reported a net loss of $31.7 million. Even Denny's 24% profit jump to $10.4 million couldn't erase Sambo's red ink.

If Sambo's were removed from the calculations, the remaining 33 food-service companies would have collectively scored a 13% profit gain on a 14% sales gain as margins narrowed 2% to 6.7% of sales. Without Sambo's, the remaining 42 food-service and lodging companies would have showed a 10% increase in profits on 15% sales growth, though margins would have narrowed 23% to 6.5% of sales.

Big winners among the fast feeders included McDonald's, which marched ahead with a 15% earnings boost to $86.9 million, and Wendy's, with 17% to $12.4 million. Church's Fried Chicken, with sales and earnings both growing at a 2% rate, payed out profits of $10.7 million.

Pizza-makers like Godfather's, Pizza Time and their franchisees also scored gains.

But fish-sellers Jerrico and Skipper's slid. Jerrico's earnings dropped 14% to $5.7 million and Skipper's slipped 12% to $267,000.

The diversified restaurant companies scored the biggest profit advances. Saga and Collins both fattened their bottom lines 33%—Saga to $2.8 million, Collins to $3.2 million before spinning off its steakhouses as a separate company. Shoney's profits grew 21% to $4.7 million, but Marriott stumbled, showing a 6% profit rise to $29.8 million while sales leaped 25%.

Brock Hotel, operator of Show Biz pizza-and-games parlors, scored an 82% profit jump to $4 million, but $1.5 million of that was from the sale of two hotels.

Mexican dinnerhouses continued to blaze the growth path for evening-meal restaurateurs. Pancho's Mexican Buffet, Acapulco y los Arcos and Chi-Chi's collectively scored a 38% increase in profits to $2.9 million altogether.

But largely on the $1.2 million loss of Victoria Station, the beef-oriented dinnerhouses performed poorly. Ponderosa, however, reported profits up 33% to $3.6 million.

Big losers in the lodging field were led by Holiday Inns and Hilton Hotels, both of which now appear headed for year-end earnings dips. Holiday Inns' profits fell 82% to $10.1 million. Hilton's fell 27% to $19.3 million.

THIRD QUARTER* SALES AND EARNINGS OF 43 FOOD-SERVICE AND LODGING FIRMS

(Fiscal period ended July-September 1982 compared to July-September 1981)

Segment	Number of firms surveyed	Revenues: July-Sept. 1982 (Millions)	Revenues: Per cent change from 1981	Profits: July-Sept. 1982 (Millions)	Profits: Per cent change from 1981	Margins: Profits as per cent of sales July-Sept. 1982	Margins: Per cent change from 1981
Fast Food	12	1,256.0	+11	130.0	+13	10.4	+ 2
Diversified	6	1,103.0	+21	46.8	+14	4.2	– 7
Dinnerhouses	10	229.3	+ 7	7.4	+ 4	3.2	– 3
Coffee Shops	3	360.5	– 6	(31.7)†	—	—	—
Cafeterias	3	175.9	+16	9.4	+12	5.3	– 5
Food-Service Total	34	3,124.7	+12	161.9	– 7	5.2	–17
Lodging	9	910.4	+18	53.5	–50	5.9	–56
Food-Service and Lodging Total	43	4,035.1	+13	215.4	–23	5.3	–33

Source: Company reports

†Net Loss
*Refers to calendar quarter, not firms' fiscal quarter

Pizza Time net up; 101 new units open

SUNNYVALE, Calif.—Pizza Time Theatre Inc. has recorded third-quarter earnings up 91% over last year, due to a 177% increase in the number of its restaurants. Net earnings in the quarter ended Sept. 9 were $1.4 million on revenues of $24.9 million, compared to $735,329 on revenues of $9.6 million in the same period last year.

For its first nine months this year, the company's net earnings were $5.0 million on revenues of $65.2 million, compared to earnings of $1.2 million on $22.2 million in revenues for the same period a year ago.

Although the number of Pizza Time units rose to 158 in the third quarter just ended (from 57 last year) average weekly sales for company-owned stores were "relatively flat" for the period compared to last year, the company said. Company-owned units reportedly average about $25,000 weekly; franchised outlets do about $28,000.

Last year in the third quarter there were 29 company-owned units and 28 franchises; this year the company was operating 76 stores and franchising 82. Since Sept. 9, the number in each category has grown to about 89 units.

Along with flat sales in the quarter, profit margins in its stores declined as operating and advertising expenses increased. These conditions were reflected in the company's stock price in recent months, which fell to about half its May high of $32 a share and has rebounded only slightly in recent weeks.

The company now has restaurants in 35 states, plus one each in Canada and Australia. While awaiting the influx of revenues from royalties in additional Canadian franchise units, plus new operations in Hong Kong and England, the company will bear the burden on increased advertising costs.

Pizza Time has just kicked off a $3 million TV campaign with the theme, "Smile, America, say Chuck E. Cheese" (the concept's bowler-hatted rat mascot). Touting children's games and birthday parties, the campaign consists of 30- and 60-second spots run in "kid-vid" time slots in some 60 market areas.

The company's restaurants feature video games and robot animal performers geared toward a 2- to 12-year-old market.

Restaurant capital fund launched

RALEIGH, N.C.—Venturvest Associates, a new capital fund which will specialize in loans to food-service chains, has been launched here with an initial $30 million offering of limited partnership interests.

Investors Management Corp., a holding company for Golden Corral steakhouses, Sirloin Stockade and other firms, is a partner with Venturvest in the new fund. H. Ray Daley Jr., former Golden Corral special projects vice president, and Edward Clark, who was an accounting executive with Peat Marwick Mitchell here, are Venturvest's general partners.

They have named an investment advisory group consisting of Carl DeBiase, a Colonia, N.J.-based research consultant; Darrough Diamond, former Wendy's marketing senior vice president; Norman Habermann, president of Santa Barbara-based Carrows coffee shops; Roger Lipton, a Wall Street food-service analyst; C. James Lynch, now a consultant in Pompano Beach, Fla.; Prof. David Pavesic of the Florida State University Hotel & Restaurant School; Paul Sheppard, president of the new Great Foodini chain in Fairfax, Va., and Clayton Duncan, a vice president of Carolina Securities Corp.

COMPANY PROFILE: MARRIOTT CORP.
Coming Soon
in
Nation's Restaurant News

EARNINGS REPORT

Company	Period	Period Ended	Total Sales*	% Change	Revenues*†	% Change	Net Income (Loss)*	% Change
Picadilly Caf.	13 wks.	9/30	$37.888	9.0			$ 1.969	(4.6)
Chart House Inc.	13 wks.	9/30			$101.257	8.7	5.692	3.4
	39 wks.				284.371	7.9	13.079	5.5
Restaurants Assocs.	13 wks.	9/25			27.010	4.9	$486,000	(37.0)
	39 wks.				77.321	3.4	1.358	(52.0)
Sandwich Chef Inc.	13 wks.	10/2	4.687	19			$215,421	12.0
Holiday Inns Inc.	13 wks.	10/1			394.221	1.1	10.110	(82.0)
	39 wks.				1.090B	6.2	65.180	(47.0)
Jerrico Inc.	13 wks.	9/30			116.393	6.5	5.705	(12.5)
Brock Hotel Corp.	13 wks.				69.401	51.7	4.004	79.2
	39 wks.				188.686	57.8	8.568	65.8
Sea Galley Stores	13 wks.	9/30	18.426	24.6			$376,000	(35.8)
	9 mos.		51.646	42.7			1.522	(8.8)
Prime Motor Inns	13 wks.	9/30			15.975	20.3	3.192	35.4
McDonald's Corp.	13 wks.	9/30			737.650	10.4	86.891	14.6
	9 mos.				2.079B	10.5	232.109	13.9
Pancho's Mex. Buf.	13 wks.				6.597	8.4	$389,856	92.8
	9 mos.				24.216	11.8	$826,896	30.9
Wendy's Int'l	13 wks.	9/30			160.621	20.4	12.379	16.7
	9 mos.				453.031	28.4	32.537	18.7
Del E. Webb Corp.	13 wks.				84.124	(29.8)	5.401	5.1
	9 mos.				250.608	(22.8)	4.193	(72.0)
Ogden Corp.	13 wks.	9/30			534.157	(17.5)	11.617	(38.1)
	9 mos.				1.685B	(11.4)	47.284	(16.4)
Godfather's Inc.	13 wks.	10/3			10.296	12.5	1.283	19.5
	9 mos.				29.795	22.0	4.012	8.5
Hardee's/Imasco	13 wks.	9/30			271.124	63.3	22.124	58.3
	9 mos.				516.622	62.8	43.052	51.4

Source: *Company earnings reports*

—loss in corresponding period
**In millions*
†In cases where companies do not break out their total sales for all units, revenues are indicated instead. These generally consist of company-owned restaurant sales, franchise fees and rental incomes, royalties and operating income, as well as other miscellaneous incomes, such as interest income and gains on real estate and construction.

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COMPANY PROFILE ISSUE:

MARRIOTT:
DIVERSIFIED GROWTH LEADER

J. Willard Marriott Sr. (top left) and his son J. Willard Marriott Jr. (above) oversee Marriott Corp.'s vast food-service and hospitality empire. Marriott operates more than 100 hotels, such as the Westchester Marriott in White Plains, N.Y. (top photo); the Roy Rogers fast-food chain with close to 400 units, mostly on the East Coast (center), and the largest domestic airline catering system. Trucks are shown at left outside the Marriott flight kitchen at Dulles International Airport in Washington, D.C. Marriott also operates many other restaurants, coffee shops, overseas flight kitchens, and airport terminal shops and manages food service for hospitals, colleges and businesses.

COMMODITIES

Turkey prices stay high; beef supply holds steady

As operators discovered during Thanksgiving, whole turkey prices are higher than last year, the result of producers cutting back production to thin out supplies. If you wonder why supermarket chains are selling birds substantially below prices you must pay your suppliers—it's because many chains are selling at cost or below. And their cost is based in most cases upon spring or summer advance buys which gave them hundreds or thousands of birds at a large discount. Cranberry sauce, too, remains about 6% to 7% higher than last year.

Beef is the bright picture. It is still below last year's levels and looks like it will stay that way for a month or so, at least. Reason: Producers have placed more cattle on feed this fall than at any time since 1980. The larger supply has cut into herd buildup for the future, but provides good supplies now. With pork remaining higher in price than beef, home pork consumption is falling off, providing operators with the benefit of lowered prices in that meat, too, although it was 13% higher than last year at the time *NRN* went to press. Unless farmers increase farrowing this winter, pork supplies will be tight for some time to come, and prices will continue high.

Meat Production Up

Beef and veal production through the first 11 months of the year were almost the same as for 1981, with a bulk of the production coming during the late summer and fall. Adding to the supply available, particularly for fast-food operators, is the 31% increase in beef imports, most of which are in boneless beef intended for hamburger use.

Pork production, on the other hand, was down 9% from last year, although there was a pickup in late October and early November. In fact, although pork prices at the slaughterhouse are still substantially higher than beef, the meat is cheaper than it was at any time in late summer or early fall, as more farmers brought hogs to market. A big question is whether the increased production is the result of more hogs available, or whether farmers are further cutting into herds.

Broiler prices, due directly to the low cost of feed grains, are still lower than last year, and many operators have converted over to expanded chicken items on their menus. With grain supplies good, broiler producers making money, and production remaining high, chicken is likely to stay at reasonable price levels through the winter.

Vegetable Picture Mixed

Most of the information on the 1982 crop season is in for vegetables. The tomato crop, which was one-third higher than last year, came in near the revised U.S.D.A. estimates, following the damaging fall rains which hit the California major growing areas. Distributors are receiving allowances of up to $1 or more per case on most tomato packs and tomato products, which should result in lowered prices to the operator during the winter and into next year. Particularly bright is the supply of 6/10 pack ketchup, which was nearly depleted as the crop year drew to an end this summer.

The usual winter swingover is under way for fresh lettuce, with prices almost double what they were in the middle of fall. Florida production is in full swing now, however, and Imperial Valley and Arizona producers are getting into harvest season, so prices should be dropping to lower levels than last year.

The canned pea pack is the lowest in over 40 years, and prices have been climbing since the end of the pack period. Dehydrated potato flakes are at approximately one-third of last year's high levels. They present a mixed picture, with some packers offering discounts off list to distributors. Both flakes and granules are a good buy now.

The frozen green bean pack is up 8% with shipments during October down 9%, so prices have softened.

PRICE MOVEMENT AT A GLANCE

	Nov. 12 1981	Oct. 12 1982	Nov. 12 1982
Beans, lima, Fordhook Grade A, frozen (lb.)	$ 0.59	$ 0.62-0.63	$ 0.64
Beef, Choice, 700-900 lb. Midwest (lb.)	$ 0.96	$ 0.95	$ 0.92
Broilers, Grade A, icepack, NYC (lb.)	$ 0.4599	$ 0.4440	$ 0.4407
Ketchup, Fancy Calif. (6/10)	$16.30-16.55	$17.30	$16.30
Eggs, Grade A large white, Chicago (doz.)	$ 0.7975	$ 0.66-0.665	$ 0.665-0.67
Lettuce, iceberg, Calif. (24s)	$ 3.50-5.00	$ 5.00-6.00	$ 6.00-7.00
Lettuce, iceberg, Florida (24s)	$ 3.00-5.00	—	$ 5.00-6.00
Pineapple, chunk, Fancy HS (6/10)	$13.85	$17.60	$16.60
Pork loins, Choice, 14-17 lb., Midwest (lb.)	$ 0.90	$ 1.145	$ 1.02
Potatoes, dehydrated flakes, 40 lb. (lb.)	$ 0.93	$ 0.30-0.32	$ 0.32
Salmon, pink, canned (48/1/4s)	$29.30	$28.00-29.00	$30.00

Source: NRN Research

Prices listed are packers' f.o.b. plant, unless specified, and do not represent the prices paid by the operator. This list is only a reference to indicate price trends against benchmarks of one year ago and one month ago. Products listed are those showing marked movement in price.

Burger King closing 'weak' stores to strengthen chain

MINNEAPOLIS—Burger King is shutting down an undisclosed number of weak restaurants in this country and abroad resulting in a one-time $8 million charge against net earnings in the second fiscal quarter ended Nov. 30, according to a spokesman for parent Pillsbury Co.

Based on the $8 million charge, it is estimated that some 30 of the chain's 3,200 units will close. "This will clean up our balance sheet," a company spokesman said.

Burger King's second quarter results were not compiled at presstime but the Pillsbury spokesman said systemwide sales were "pretty strong," rising about the same rate as in the first quarter.

In November, a Burger King executive said per-unit sales rose about 5%-6% in real terms (after adjustments for inflation) in the first quarter, in part due to the success of the chain's "Aren't You Hungry?" advertising campaign.

Burger King's second quarter sales are expected to be helped considerably by the chain's current taste-test advertising campaign in which Burger King claims its Whopper sandwich beat comparable McDonald's and Wendy's sandwiches in national taste tests.

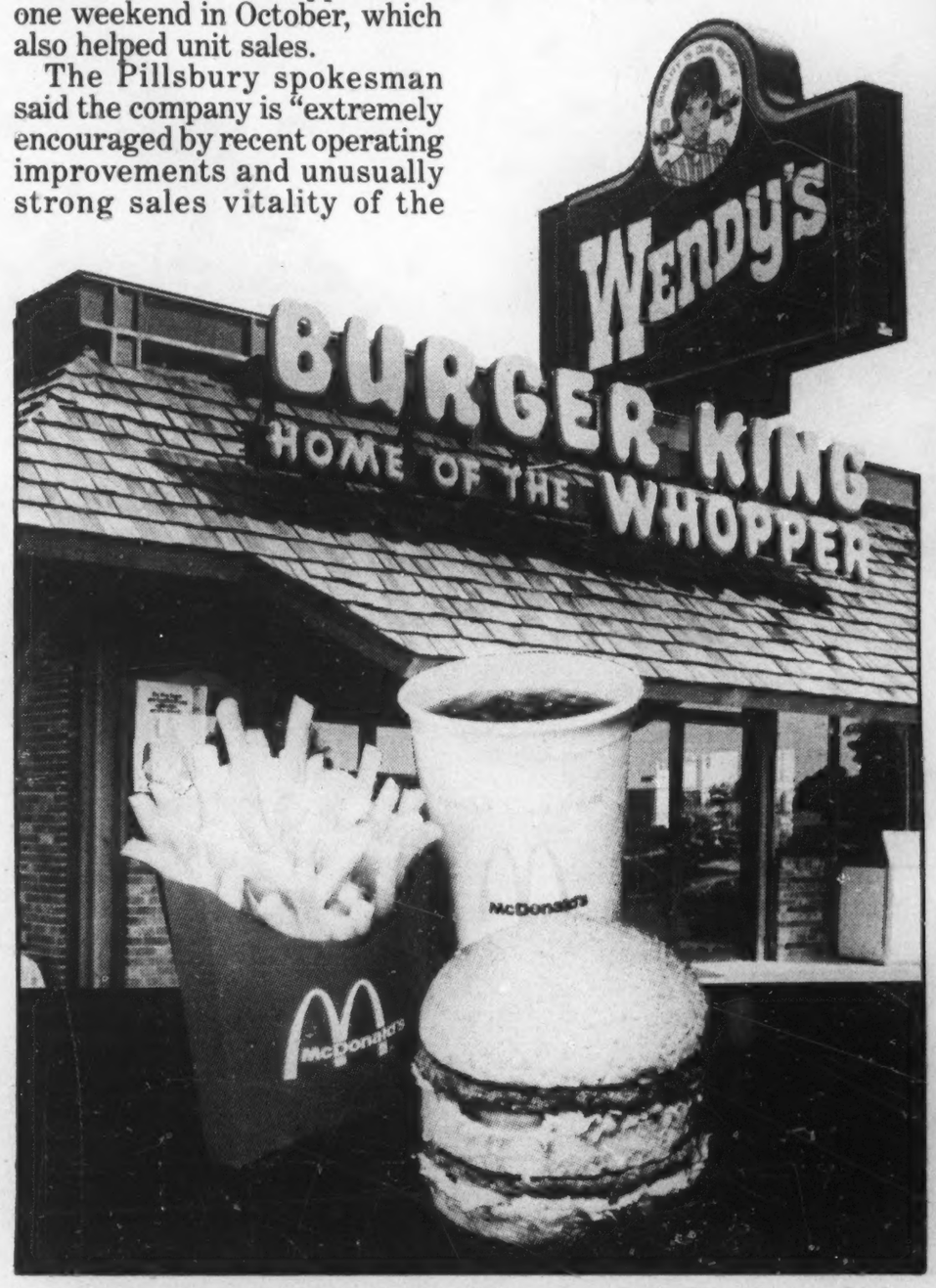
That ad campaign began on Sept. 27 and generated an unprecedented amount of publicity for Burger King and other chains in the fast-food hamburger segment. Burger King also ran a 2 for 1 Whopper offer one weekend in October, which also helped unit sales.

The Pillsbury spokesman said the company is "extremely encouraged by recent operating improvements and unusually strong sales vitality of the Burger King system."

The "writedown of assets," as the restaurant closings are called, "will significantly enhance the operating prospects of this business during the current fiscal year and beyond," he said.

The decision to close the restaurants was made after Pillsbury conducted its own studies which showed such a move was "an essential step . . . to strengthen Burger King."

Burger King's average unit sales at the start of the current fiscal year in June were $751,000.



With the end of the 'battle of the burgers,' the big three chains are looking to new strategies to boost sales.

Armistice declared in burger war

NEW YORK—One of the strangest and noisiest episodes in food-service advertising history is coming to a close at the end of this month as McDonald's, Burger King and Wendy's lick their wounds and try to figure out what impact, if any, the highly publicized "battle of the burgers" had on sales.

All three chains, meanwhile, reportedly are putting the finishing touches on 1983 advertising strategies. Burger King will continue its successful "Aren't You Hungry?" campaign and has not ruled out the use of additional taste-test comparisons. McDonald's will use as its theme, "Together, McDonald's and you," and Wendy's is continuing its "You're Wendy's kind of people" theme.

Advertising strategies of the three burger chains this fall have concentrated on product quality and taste—specifically the quality and taste of their hamburgers. Fast-feeders have been criticized in some quarters for menu diversification and burger chains in particular have been scored for paying more attention to new menu items than to burgers.

Burger King, which spent two years developing and promoting specialty sandwiches and other products, has been concentrating on its broiled burgers this year through its "Aren't You Hungry?" campaign; sales in the first fiscal quarter covering the summer months were up 5%-6%.

McDonald's, which has spent millions in the last two years on sweepstakes and giveaways and promoting new items such as Chicken McNuggets and McRibs, has switched direction in recent months with ads emphasizing hamburger quality. In its most recent ads, customers including well-known personalities make a pitch for McDonald's burgers.

"You're Wendy's kind of people" ads focus on young adults enjoying Wendy's hamburgers. Earlier Wendy's ads mentioned newer menu items.

Burger King touched off the so-called burger wars on Sept. 27 when it began airing controversial television commercials that claimed its Whopper beat McDonald's Big Mac and a similar Wendy's product in national taste tests.

Marriott gives Cash food management reins

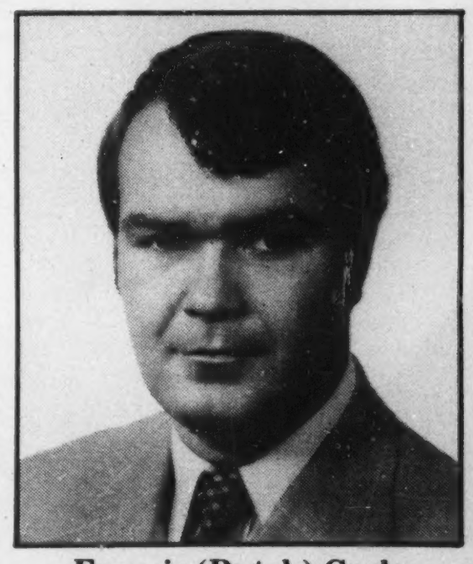
BETHESDA, Md.—Francis W. (Butch) Cash, the 40-year-old Marriott executive credited with positioning the company's Roy Rogers fast-food chain for its current expansion drive, has been given the added responsibility for Marriott's food-service management division.

Cash retains his title as senior vice president and will continue to be responsible for Roy Rogers and Marriott's procurement and distribution operations. (Marriott is the subject of the annual company profile in this issue's Focus section.)

This is the latest of several executive changes in the company's contract food-services group which includes food-service management and airline catering. In late October Gary L. Wilson, Marriott's chief financial officer and corporate senior vice president, was given the added responsibilities of directing in-flight catering.

J. Robert Schultz was named senior vice president in charge of market expansion for the in-flight catering division.

Contract food services overall has been hit hard by the recession. Operating profits have been up slightly this year but after factoring out contributions from the Host division, acquired by Marriott last spring, the group's operating income actually is off an estimated 7%-10%.



Francis (Butch) Cash

Most of the company's trouble comes from its domestic and international airline catering operations. Cash, however, is responsible for food-service management which has picked up 49 new accounts this year and expects to boost profits 25% over 1981.

Marriott's food-service management division provides food service to 260 hospitals, colleges and businesses.

Cash joined Marriott in 1974 as vice president and controller.